February 1988

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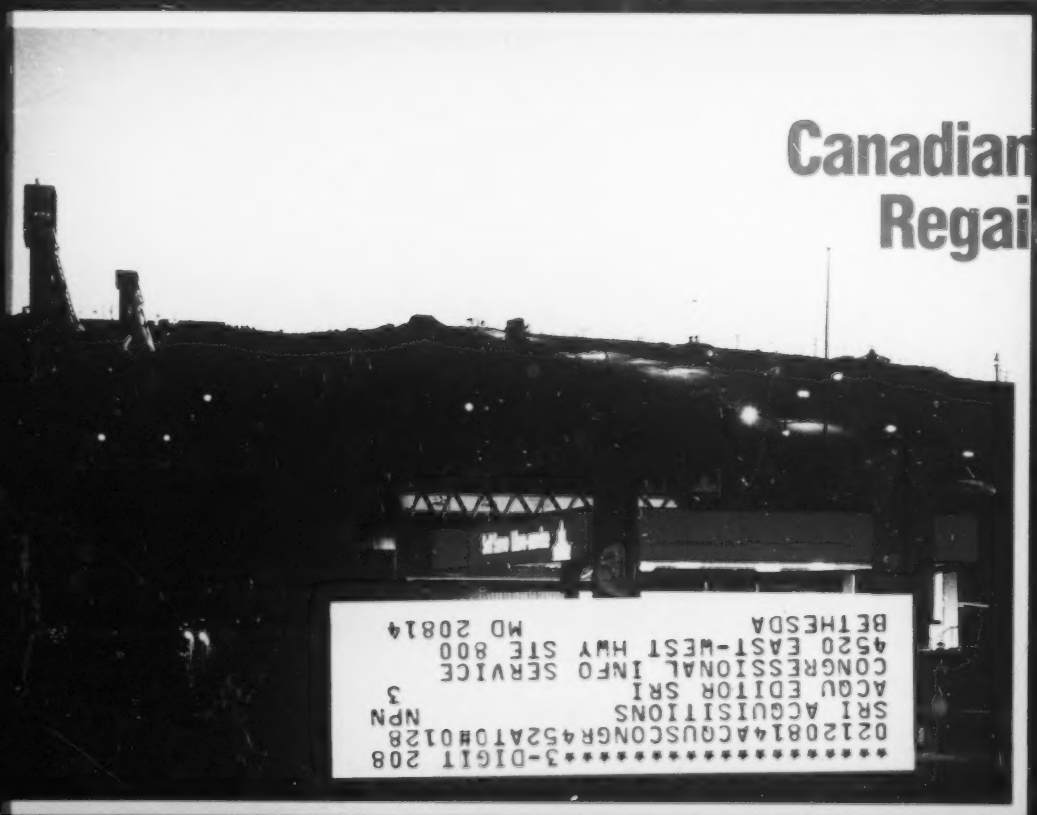

Canadian Marketing Regains Stability

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Editor's Viewpoint

Gasoline and fuel oil marketers are hopeful that another situation is shaping up that will give them the very fat margins they enjoyed briefly in early 1986 when the bottom dropped out of world crude oil prices. However, competition was already stripping away margin gains last month.

The gasoline marketers appear to be in danger of losing more than a brief period of fat margins, too. In January, the trend of posting retail prices for unleaded gasoline at or close to leaded regular appeared to be spreading from big-city markets out to smaller ones. This could wipe out solid margins that have existed for some time on unleaded.

Two years ago, when world crude prices took a nosedive, rack-to-retail spreads were as much as 25¢ to 35¢ a gal. for a short time, 15¢ to 25¢ a gal. over "normal." This happened because crude oil and wholesale product rack prices dropped faster than retail pump postings. A similar situation developed in December. Crude oil postings dropped to about $16.50 to $18 bbl. and refiner rack prices tumbled to around 45.5¢ gal. for gasoline and 52.5¢ for heating oil/diesel in key markets east of the Rockies.

As 1987 came to an end, marketers in some areas were once again enjoying very good margins. The spreads between wholesale racks and pump postings in some parts of the East were in the 25¢ gal. or better range, while some Eastern consumers said they were paying around 90¢ gal. for heating oil at a time when New York Harbor prices were quoted at around 52.55¢ gal.

Some marketers believed spreads between pumps and wholesale racks might widen even further in January. "The world is awash in both crude oil and products, and Iran and Iraq need more money," said a Southeast independent. "I think we'll see $10 to $12 bbl. crude by the end of January."

Retail pricing patterns that began developing in December could quickly erode any margin cushion that a crude oil price drop might bring, however. Price spreads between leaded and unleaded gasoline were disappearing in the Southwest and possibly elsewhere. In East Texas, for example, some independents were posting prices as low as 77.9¢ for both grades at year's end. Previously, most had been posting unleaded from 3¢ to 5¢ over leaded.

The deterioration of unleaded margins will hurt. Some indies report unleaded now runs about 88% of their total sales. If unleaded regular becomes their new "loss-leader," as seems probable, their "composite" or average margins will be adversely affected.

—Frank M. Victoria

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Earnings are up, prices have improved, product demand has stabilized and Canadian oilmen are optimistic for the first time in years. **Page 26**

Following a series of major acquisitions, Petro-Canada, the government-owned oil company, has become a dominant force in the Canadian retail market. **Page 34**

York Oil in Hampton, Va., offers gourmet foods and a large selection of fine wines at what the company calls "the world's most unusual gas station." **Page 46**

• TRENDS

Will Royal Dutch Shell or BP Scuttle Texaco?

No one questions that Texaco Inc. will be put through the dawgondest wringer of them all this spring, summer and fall. What makes it more interesting, however, is that some people out there are already hypothesizing whether Texaco Inc. will be able to survive the mayhem. The $64 question: Will Texaco Inc., as it's now constituted, still be in business as a corporate entity by the end of this year...or will it already have been drawn, quartered and sold off piecemeal?

Bosh, you say. Idiotic pipedreams; that's all.

Hah, these people say. Go back to Pittsburgh, Pa., and ask the people there about the dismemberment of their beloved Gulf Oil Corp. Have the natives of Bartlesville, Okla., tell you what almost happened to Phillips Petroleum and their pleasant little company town. How about the narrow escape that Union Oil had? Remember Marathon and Conoco? They were bought up by outsiders. What about Citgo, which was gobbled up by Occidental Petroleum then dismembered and sold?

Texaco is likely to emerge from Chapter 11 bankruptcy this spring, weak, battered and poorer by $5-billion to $6-billion in the settlement of its four-year-old legal battle with Pennzoil Corp. (See related item on page 8). It faces a strenuous, uphill battle, however, to regain its stability and/or retain its ranking as a top drawer oil company domestically and internationally.

For example, corporate raider Carl Icahn's not only in the house already, he virtually has both feet under the boss's desk, pressing for massive financial restructuring and/or piecemeal sale of selected assets or the corporation itself. Icahn is not noted as a patient investor. He wants action and short-term pots of gold now, not next year.

There's no shortage of entrepreneurs like him—and some oil companies too–that are solely interested in getting pieces of the action that'll suit their own short–range goals–crude reserves, marketing facilities or just plain money.

One of the many scenarios being bruited about privately these days is a real humdinger. It suggests that two of the three biggest oil companies in the world will be fighting over Texaco by late spring or early summer. Both are British conglomerates and won't that be fun if this twosome really has a go at each other and the U.S. marketplace? The two companies are Royal Dutch Shell, which owns Shell USA outright, and British Petroleum Ltd., which last summer bought up total control of Standard Oil Co., formerly Sohio. Royal Dutch is fiercely proud of Shell USA's leadership as the nation's No. 1 gasoline marketer and reportedly has up to $8-billion readily available for investments here and abroad as it sees fit. BP London, which spent $7-billion last summer to convert Standard to a fully owned subsidiary, is said to be meticulously redesigning its BP USA image and ambitions for major incursions in local markets.

Is it illogical to think that BP London could be perhaps envious of the successes of Shell USA? The history books are full of stories about how British overlords expanded footholds around the world in the past, competing with each other and the locals alike for dominance. Is it hard to imagine that their 20th century counterparts are plotting their "Buy American" campaigns now in their plush London headquarters, waiting an opportune time to move? Shell, no doubt, could use more Grade-A service stations and some additional crude oil reserves, of which Texaco has an abundance. And what could be better for BP than a coast-to-coast chain of service stations that could overnight put it on equal footing with Shell USA?

Texaco, while not down and out yet, is still in big trouble. Any head-on fight between a Shell and a BP for its carcass or any combination which would take either of them and somebody else as a partner could lay Texaco low in short order and put the parts and pieces on the block. Ready for another one? About the only thing the well-heeled Japanese haven't bought yet is an American oil company. They already own the old Exxon and Mobil buildings in midtown New York. Is there a "Nipexico" in the making out there?

—J. Richard Shaner

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (per gal.)

NOVEMBER	Gasoline (All types)	Leaded Regular	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$0.987	$0.928	$0.976	$1.125
Regions				
Northeast	1.016	0.941	0.987	1.142
North Central	0.999	0.953	0.996	1.134
South	0.981	0.909	0.968	1.116
West	0.963	0.923	0.956	1.112

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (add 000 bbl.)

	1/1/88	1/2/87
Gasoline (total)	227,461	233,871
Gasoline (unleaded)*	135,518	130,593
Jet Kerosine	43,920	42,262
Distillates	136,670	153,552
Residual	46,148	43,193

** Included in gasoline total.*
Source: American Petroleum Institute.

Oklahoma, Louisiana, New Mexico and the Gulf of Mexico. Some TV news reports, in summarizing the deal too concisely, almost made it sound as though Amoco had bought all of Crown.

Texaco buys 37 C-stores in Tampa, Fla., area

Texaco, which already has more than 900 Food Marts in its C-Store chain, has paid Sparky's, Inc. $22-million for 37 units in and around Tampa, Fla., and "quite a bit of real estate" as well.

The stores are credited with pumping around 2.5-million gal. to 3.0-million gal. of gasoline monthly. All will be converted to Texaco Marts, it is understood. Six other stores in the chain which were not purchased by Texaco will continue being operated by Radiant Oil Co., Tampa.

Mobil wins $2-million from coastal mining suit

A "wrongful mining" suit that it pressed for 10 years against Mobil Corp. has cost Coastal Petroleum, Houston, about $2-million to enable the big oil company to recover some of its litigation costs.

The suit involved phosphate operations in Florida. Coastal dropped the suit last summer, and in early December Circuit Judge J. Hall, in Tallahassee, Fla., handed down his award for Mobil.

Not A 'Grinch,' Chevron says in Xmas tree byplay

When Chevron management questioned the safety aspects of Christmas tree sales at a busy service station in Florida in December, some local townsfolk said the corporation could be likened to a "Grinch," the storybook Seuss character that tried to steal Christmas; or, at best, the Scrooge of "Bah Humbug" fame.

Not so at all, said Chevron management, which insisted that its prime concern was the possibility of accidents at the station, due to the increased vehicular traffic and the number of people on the scene.

Local citizens and Mayor C. Flanagan protested that the lot was safe and that there should be no problems. Corporate Chevron yielded to the spirit of the season and the tree sales were allowed to continue under the auspices of the vendor and the Boy Scouts, who shared the work and the earnings.

The branded station is located at Pembroke Pines, about halfway between Miami and Fort Lauderdale. NPN

Critical issues pose threat for indies: SEOMA

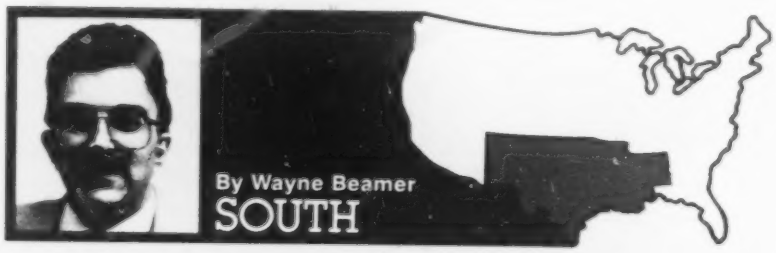
There are at least 10 governmental issues which pose survival problems for independent marketers in the Southeast, according to a membership poll by the Southeastern Oil Marketers Assn.

Participants were asked to rate the issues as minor, major and/or so serious that they could put the respondent out of business. Here's the way they voted:

Issue	Survival Threat
High mandatory tank leak insurance	100%
Short tank replacement schedule	100%
Stage II vapor recovery	86%
Increased minimum wage	79%
Prohibit beer where gasoline sold	71%
Prohibit cold beer with gasoline	71%
Refiner collection of gasoline taxes	71%
Overtime for C-Store managers	71%
Mandatory employee health insurance	71%
Overlapping tank responsibility	64%

In another phase of the survey, the respondents were asked to rate the nongovernmental items which were likely to have serious effects on their business operations. Here's the way they ranked these problems:

Issue	Percentage
Lawsuits and high cost of liability insurance	100%
Unfair competition by refiners	86%
Federal budget deficit	71%
Crime	71%
Lack of or high cost of capital	64%



Stage II May Be Under Consideration For Houston's Environmental Plans

Due to difficulty in developing a state implementation plan (SIP), the Texas Air Control Board may be forced to consider controversial and costly Stage II controls in Houston.

Environmental Protection Agency administrator Lee Thomas notes Houston "is up at the top" of a list of cities that are going to have a hard time maintaining the ozone standard, according to a story published in the *Houston Chronicle*.

Houston is one of many urban areas around the country that will have three years to finalize a new SIP due to EPA's recent extension of the Clean Air Act [*NPN*—Dec. '87, p9].

Stage II "could be needed" in Houston, says Jim Gise, director of TACB's control strategy division in Austin. But a state law, passed by the 1987 Texas legislature, forbids Stage II implementation except by a federal mandate.

TACB board member and north Texas marketer Bill Quortrup speculates Stage II won't be an integral part of Houston's SIP. "Stage II is not the most viable of options. They'll have to look at the whole laundry list."

Although Stage II is part of a recently revised Dallas-Tarrant County SIP, Quortrup points out it is "a dead issue." Even

Service Station Population Slips Again, Hitting Historic Low Point

Federal statisticians say 5,000 more service stations vanished from the nation's streets and highways in 1987 and, unless the long awaited bottoming out comes to pass soon, another 3,000 will bite the dust by next Dec. 31.

The drab summary and projections are contained in the latest report of the U.S. Commerce Department's "Franchising in the Economy 1986-88," which is to be released early this month. The new study says the decline in 1987 was a bit sharper than it had forecast last year. It had expected a drop of about 3,000; instead it was closer to 5,000 units.

But, as in the past, not all of this is bad news. Many of the smaller stations are still being replaced by bigger, fancier outlets fully capable of handling the neighborhood and transient gallonage and customers. In other words, where three or four smaller stations may have disappeared, one big 200,000 gal. a month unit probably replaced them. This procedure has been going on for the past decade so there is nothing new or surprising in it.

A recent update by McGraw-Hill, Inc., for example, said that U.S. oil companies had scheduled the biggest investment in marketing facilities in history for the 1987-88-89 periods. These marketing expenditures exceed $14-billion for the three-year period, much of it going into new and modernized stations, pumps and other customer-oriented services. [*NPN*—Jan. '88, p34].

Lowest in 60 Years

The new federal forecast anticipates a service station population of 112,000 by the end of this year. This will be the lowest number since the mid-1920s. The American Petroleum Institute's Centennial Yearbook, published in 1959, indicates there were 121,513 service stations in 1929. Data before that time are lost in the clouds of antiquity.

The 1988 projection means the U.S. service station population has been literally cut in half since the all-time peak of 226,500 outlets in 1972. Most of the stations that vanished did so in the late '70s and early '80s when the "Mom and Pops" and the 10,000 gal. a month units were simply unable to survive in the traumatic atmospheres of shortages, excesses and changing economics.

A point to remember, to keep all these dour numbers in perspective, however, is that the Commerce Department statistics identify "service stations" as those that generate 50% or more of their revenues from the sale of gasoline and oil products. This is the same definition that is used by the Census Bureau which currently is engaged in making the nose count it is required to do at five-year intervals. The Census Bureau numbers are not expected to be available until sometime in 1989 at the earliest, however.

C-Stores Are Ignored

Thus, this Commerce Department report excludes the convenience stores and other independents, such as automobile dealerships, garages and mass merchandisers who also sell great volumes of gasoline but as a secondary cash-flow activity. The convenience store industry retails gasoline at a little more than half of its population which is now estimated at 75,000 stores.

If these 37,500 stores are added to the Commerce Department estimate of 112,000 stations by next Dec. 31, it would give motorists at least 150,000 places where they can buy motor fuel at this time. Throw in maybe another 15,000 to 20,000 or so for mass merchandisers, garages, dealerships, truck stops etc., and the public total likely could be around 165,000 to 170,000 now.

Hunter Publishing Co. Inc., NPN's corporate parent, says the gasoline retail outlet universe was somewhere around 186,000 early last year. Its study gave 127,300 as the total for traditional service stations, 55,700 for convenience stores and mass merchandisers, and 3,000 for truckstops.

Absolute statistics for the service station world are virtually impossible to come by. The federal studies, even including the official U.S. Census Bureau nose count, contain estimates of one sort or another for some groups. There's no getting around the fact that no one has hard and fast numbers on the population; only estimates.

Dollar Volumes Grow

The dollar sales at the nation's service stations were not as great as had been expected, even though they were high and still growing.

The January 1987 report, for example, said gross sales at the stations would be $90.3-billion in 1986 and $94.9-billion in 1987. Instead, the new study said they amounted to $86.6-billion in 1987 and would rise to $91.9-billion this year. The revisions can be accounted for easily by the collapse of product prices in early 1987 and the depressed levels that still continue to this day. Prices generally are improving but they're still way below the highs registered before the market downfall in late 1986 and throughout most of 1987.

In the same vein, the average dollar volume per station also suffered in 1987 and, while higher in 1988, still won't be as good as had been projected in January of last year for 1987.

The previous forecast had anticipated an average of $811,000 per store in 1987. Instead the new number was $769,975, some $40,000 less per store.

C-Store Growth

As one of its many projections, the franchising forecast also delves into the world of convenience stores. However, these numbers should be considered more as trends than actual statistics. The problem here is that the study only counts franchised establishments and the totals therefore are only about 20% of the real world. The convenience story industry says it has a population of 75,000 now.

Nevertheless, the franchised stores show continued growth from 1986 through 1988. The franchised universe is reckoned at 17,211 stores in 1988, up 5.6% over 1987. Total sales dollars projected for 1988 are $13.6-billion versus 1987's $12.3-billion. The average per station is estimated at $787,959 in 1988 and $756,257 in 1987, a growth of 4.2%.

—By J. Richard Shaner

Many smaller stations are being replaced by larger, fancier outlets.

1988 Outlook: Service Station Dollars Up, Population Down

				% Change	
	1988	1987	1986	1988-87	1987-86
No. of establishments (a)	112,000	115,870	120,510	(3.3%)	(3.8%)
Company-owned	20,160	20,857	21,692	—	—
Franchisee-owned	91,840	95,013	98,818	—	—
Total sales of products and services ($000,000)	$91,894	$89,217	$86,618	3.0	3.0
Company-owned	16,541	16,059	15,591	—	—
Franchisee-owned	75,353	73,158	71,027	—	—
Average per station	$820,482	$769,965	$718,762	6.6	7.1

(a) As of Dec. 31 of each year; service stations as defined by Commerce and Census Bureaus. i.e., 50% or more of their income from gasoline sales.
Source: "Franchising in the Economy 1986-88," U.S. Dept. of Commerce, February 1988.

Franchised C-Stores: Steady But Not Spectacular Growth Foreseen for 1988

				% Change	
	1988	1987	1986	1988-87	1987-86
No. of establishments	17,211	16,298	15,524	5.6%	5.0%
Company-owned	9,598	9,254	8,974	—	—
Franchisee-owned	7,613	7,053	6,550	—	—
Total sales of products and services (000,000)	$13,562	$12,325	$11,279	10.0	9.3
Company-owned	7,857	7,283	6,732	—	—
Franchisee-owned	5,704	5,042	4,547	—	—
Average per store	$787,959	$756,257	$726,546	4.2	4.1

Source: "Franchising in the Economy 1986-88," U.S. Dept. of Commerce, February 1988.

The Rise and Fall of U.S. Service Stations

	No. of Stations (a)			Sales (000,000)		
Year	Total	Company-owned	Franchisee-owned	Total	Company-owned	Franchisee-owned
1988	112,000	20,160	91,840	$91,894	$16,541	$75,353
1987	115,870	20,857	95,013	89,217	16,059	73,158
1986	120,510	21,692	98,818	86,618	15,591	71,027
1985	124,600	22,428	102,172	100,492	18,089	82,403
1980	158,540	30,122	128,418	96,338	18,304	78,034
1975	189,480	37,896	151,584	47,387	9,477	37,910
1972	(b) 226,459	44,200	176,259	33,656	6,812	26,844

(a) As defined by Census Bureau; (b) Peak year.

Canada's Petroleum Industry Getting Back on Track

Canadian oilmen are a tough-minded breed. No one has had it easy in the oil business in the past 15 years or so, but for Canadian marketers it has been an almost uniquely turbulent and difficult stretch of time, characterized by slumping product demand, a dwindling downstream asset base, anaemic earnings, disruptive government policies, plus the usual disputes between retailers, independents and suppliers. The situation for many marketers has been especially rough since the onset of the 1980's.

Yet, as the new year begins to unfold and the world's attention is riveted on the 1988 Winter Olympics in Calgary, there are unmistakable signs that Canada's petroleum industry has adapted itself to the new realities of the oil market and is moving ahead again into an era of steady, if not spectacular, production, sales volumes and earnings.

"Industry prospects look considerably brighter today than they did just a year ago," was how Imperial Oil Ltd. chairman Arden R. Haynes described the situation before an industry group recently. Among the positive factors he noted were increases in drilling rig activity, announcements of major capital expenditures by oil firms and a new government/industry climate with an emphasis on market pricing and where "revenue sharing terms . . . are more favorable than they have been for quite some time."

Changes in governmental policy, keyed to reduced intervention and taxation, have created a more favorable climate for petroleum investment, Haynes said, "one that makes $18-a-barrel oil seem much more attractive than it would have been several years ago." He noted that Imperial, like several other companies, "is doing quite well at current price levels."

It's been a bumpy road to financial health for many firms. Renewed vigor in the marketplace has been accompanied by intense competition, widespread staff cutbacks, an on-going "rationalization" of refineries and marketing assets, plus a substantial pullback in upstream investments for exploration as companies trim their sails more for short-term cash generation rather than riskier long-term resource development.

What's happened, in short, to Canadian companies is a massive shift to the "leaner and meaner" operating profile that is now so familiar to U.S. oil companies. It's an "overdue and much-needed shakeout," in the words of one industry observer, leaving Canadian marketers more efficient, innovative and responsive to changing market conditions.

The internal surgery has apparently been a success for many of the larger Canadian companies. Most reported increased sales and earnings through the first nine months of 1987, on top of generally improved performances in 1986.

Imperial Oil, the largest Canadian oil company, says it had operating profits of $568-million (Canadian dollars), an increase of $256-million over the same period in 1986. Downstream earnings—Imperial markets under the Esso Petroleum brand—were up, too, increasing $21-million to $159-million. Product sales were up 8% over the period.

Better earnings allowed Imperial to invest a record $1.4-billion in 1987, according to the company's chairman.

Petro-Canada, Inc., the government-owned oil company and number two in the Canadian pecking order (number one in gasoline), doesn't disclose quarterly earnings (See related story on p34), but Petro-Canada Products president Robert Mayo said nine-month earnings were "directionally better" than 1986.

Shell Canada Ltd., the number three company, said its nine month-earnings improved $187-million to $261-million. Downstream profits of $75-million were unchanged, mainly due to "continuing intense price competition," the company said.

Texaco Canada Inc.—the subject of much buyout speculation these days following the Texaco/Pennzoil settlement—had a net income improvement of $23-million to $231-million in the first nine months of 1987 and an increase of $10-million to $55-million in downstream sales.

Suncor Inc. (Sunoco), one of the largest regional refiners in Canada, saw its earnings increase to $62-million in the first nine months from a $13-million loss in the year-earlier period. Downstream earnings were equally dramatic, improving threefold from 1986 to $31-million in 1987.

Mohawk Oil's restyled "Chief" symbol sets tone for company's new image program.

Canadian companies have also been buoyed by a recent stabilization in petroleum product demand, or what Robert Mayo refers to as a "bubble" in product sales. According to the Energy Section of Statistics Canada, total refined product demand increased by 3% to about 417-million barrels through October, 1987 compared with the same period in 1986. Retail gasoline sales increased 1.6% to 131-million barrels in the same time frame.

Refinery production, too, was up to about 422-millions barrels in the first nine months of 1987, Statistics Canada reports, an increase of almost 6% over the same 1986 period. Crude imports were up by 11% through September, 1987, reaching a total of 106-million barrels. Still, Canada is less dependent on imported oil than the U.S., needing only about 25% from foreign suppliers as compared to a U.S. import dependancy level that has passed 40% and is still climbing.

The bubble in product volumes has been an encouraging sign to Canadian marketers who have been battered by a downswing of 25% in demand from the peak year of

By Donald Smith
Senior Editor

One of Canada's largest independents, Mohawk is diversifying into new service areas such as Stop 'n Shop Stores with in-house bakeries.

1979 through 1986. Most observers, however, agree that the market has "matured"—much as in the U.S.—and they anticipate only marginal increases (less than 1% per year) in demand over the long term.

Generally improving economic conditions in Canada are expected to bring modest increases in gasoline, diesel, aviation fuel and lubricant sales in the next few years. This will be offset somewhat by a continuing decline in fuel oil and heating oil, which were victims, in part, of a shortage-induced "off oil" campaign aimed at switching consumers to other energy sources.

Rationalization

Canadian oilmen cite more stable prices, the modest increase in product demand and new business initiatives as lynchpins in their generally improved financial performance. However, the trimming and prunning involving company staffs, wholesale and retail assets, resource investments and the like has also clearly had a positive impact on the companies' profitability.

The shakeout really got underway around the beginning of 1986 when the bottom dropped out of crude prices.

Petro-Canada, for one, said it had reduced its "staff complement" by 23% in 1986, combined with a 37% decrease in capital expenditures. Texaco reduced its staff by about 300, Imperial slimmed down its work force by 16% in 1986 (and operating costs by $91-million) and Suncor has cut its staffing by 15% since the beginning of 1986. Shell, however, had a staff reduction of less than 2% for the year.

Stephen O'Farrell, marketing vice president for Texaco Canada, says the company's marketing department has been trimmed by 30%. "We've de-layered the department," he says. "There are now only three staff layers—general sales manager, division manager and sales supervisor—between me and the field. It's a lot more efficient now."

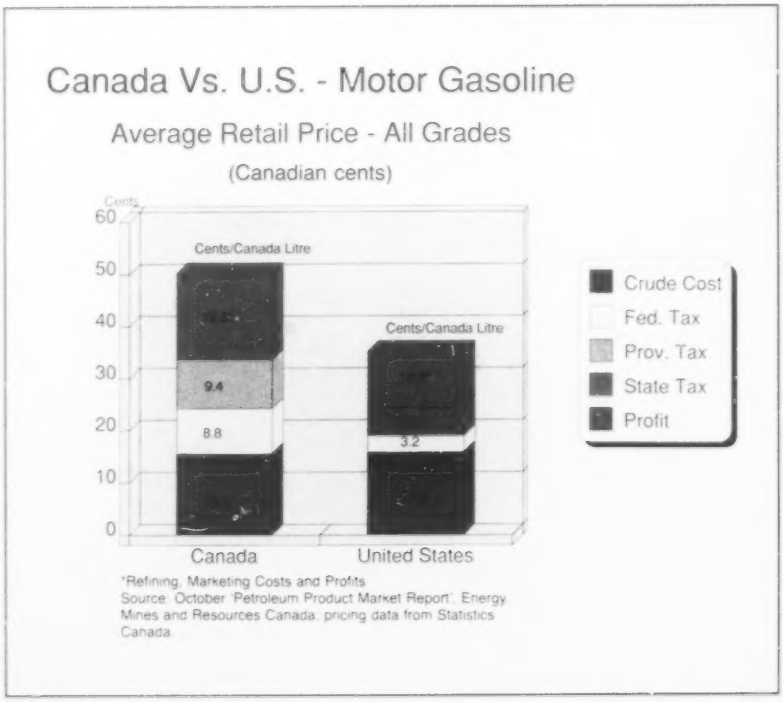
Refineries and marketing assets have felt the ax, too. Thirteen refineries representing 20% of Canada's total capacity have been shut down in the past decade as companies have struggled to get utilization rates up to acceptable levels in an oversupplied market. Utililization is now running at about 80% of capacity.

The "rationalization" of Canadian service stations has been even more dramatic, dropping from a high of 35,000 in the early 1970s to a current total of about 20,000. Texaco, for example, dropped from 2,800 stations four years ago to its present 2,080.

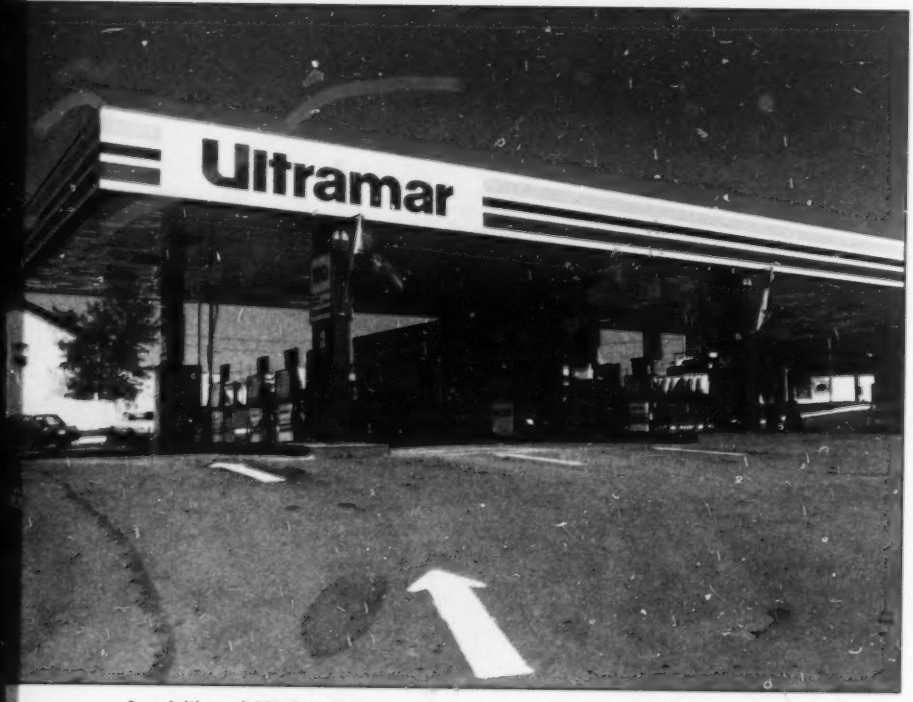
Painful steps, perhaps, but necessary in the eyes of Canadian petroleum execs. "Those (rationalization) measures brought us into 1987 very lean and very trim and gave us tremendous leverage to benefit from any sustained inprovement in crude oil prices," says Imperial's Haynes.

A Different Market

There are similarities between the two



Four firms control 62% of the retail market



Acquisition of 662 Gulf Canada service stations in 1985 made Ultramar Canada the No. 1 petroleum products distributor in Quebec and Atlantic Canada and triggered a massive rebranding program.

markets, but it would be inaccurate to view the Canadian market as a mirror image of the U.S. market.

"For a number of reasons, the market has evolved differently up here," say Ford Ralph, vice president of marketing and development for Petro-Canada.

Here are some of the major differences:

- Geography and population are major factors. Although it is the largest country in the Western Hemisphere, Canada's population is only 10% of that of the U.S. As one observer put it, "it's a California-sized market spread over 3.8-million square miles."
- The Canadian market is dominated by a small number of major national and regional refiners. "It's an oligopolistic market compared to the U.S.," says James R. Conrad, executive vice president of the Petroleum Marketers Assn. of Canada, an independent marketers group based in Toronto.

According to Kent Marketing Services, Ltd., a London, Ontario-based investment and market research firm that monitors over 8,000 retail outlets in 100 markets, the big four national refiners—Esso Petroleum (Imperial), Petro-Canada, Texaco Canada and Shell Canada—had a combined 60% of the branded gasoline market in the most recent reporting period (third quater 1987), plus another 2.1% share in secondary or unbranded sales.

By comparison, eight major companies in the U.S. together control barely 50% of the retail gasoline market.

Meanwhile, five regional refiners—Ultramar, Husky, Irving, Chevron and Sunoco—had a 13.1% share in primary branded sales and another 1% in unbranded, according to Kent's third quarter stats.

Thus, major and regional refiners together accounted for about 76.3% of the retail gasoline market, leaving a 23.7% share for about 75 independent marketers.

In the overall category of light oils (gasoline, jet fuels, middle distillates, light heating oils), seven refiners had a whopping 91% market share at the beginning of last year, alloted as follows: Esso, 26%; Petro-Canada, 23%; Shell, 17%; Texaco, 12%; Ultramar, 8%; Sunoco 4%; and Husky, 1%.

- There is no U.S.-style branded jobber network in Canada nor is there a prevailing rack pricing system throughout the country (although a few companies have instituted rack price programs). Independents function mainly as private brand resellers, buying product from one or more suppliers for resale under their own brand. Independ-

The Top Six Canadian Companies—A Five-Year Profile

(Shown in Millions of Canadian Dollars)

	1986	1985	1984	1983	1982
Imperial (Esso)					
Revenues	$7,064	$8,804	$8,755	$8,407	$8,270
Earnings	440	694	520	336	298
Petroleum Products Earnings	174	102	133	65	155
Net Crude Production (bd)	187,000	136,000	106,000	104,000	101,000
Petroleum Product Sales (bd)	332,000	341,000	334,000	343,000	367,000
Number of Employees	12,516	14,834	14,331	14,732	15,476
Petro-Canada					
Revenues	$5,172	$5,381	$4,988	$4,171	$2,795
Earnings	123	96*	132	9	(9)
Petroleum Product Earnings	115	(22)	NA	NA	NA
Net Crude Production (bd)	65,000	63,000	65,000	59,000	59,000
Petroleum Product Sales (bd)	279,000	224,000	188,000	171,000	96,000
Number of Employees	7,740	9,747	6,798	6,272	5,918
Shell Canada					
Revenues	$4,818	$6,102	$5,762	$5,336	$5,189
Earnings	154	146	123	102	131
Petroleum Products Earnings	129	154	71	NA	NA
Net Crude Production (bd)	49,000	49,000	50,000	44,000	42,000
Petroleum Product Sales (bd)	212,000	217,000	207,000	205,000	214,000
Number of Employees	7,011	7,142	7,136	7,975	8,611
Texaco Canada					
Revenues	$2,807	$4,304	$4,358	$4,213	$3,753
Earnings	283	336	423	344	275
Petroleum Product Earnings	73	39	NA	NA	NA
Net Crude Production (bd)	74,000	89,000	89,000	86,000	81,000
Petroleum Product Sales (bd)	158,000	160,000	159,000	163,000	169,000
Number of Employees	3,326	3,711	3,635	3,904	4,418
Ultramar Canada					
Revenues	$1,501	$1,386	$1,385	$1,166	$1,275
Earnings	(13)	(18)	5	(22)	(11)
Petroleum Product Earnings	NA	NA	NA	NA	NA
Net Crude Production (bd)	NA	NA	NA	NA	NA
Petroleum Product Sales (bd)	101,000	67,000	73,000	76,000	86,000
Number of Employees	NA	NA	NA	NA	NA
Suncor					
Revenues	$11,157	$1,474	$1,584	$1,484	$1,551
Earnings	1	34	110	106	68
Petroleum Product Earnings	27	11	NA	NA	NA
Net Crude Production (bd)	NA	NA	NA	NA	NA
Petroleum Product Sales	65,000	65,000	67,000	70,000	73,000
Number of Employees	4,180	5,430	5,580	5,410	5,190

*Before unusual items
Source: Annual Reports

ents range in size from small firms with several stations to regional companies such as Mohawk Oil Co. Ltd. with several hundred outlets.

• Foreign ownership of Canadian petroleum assets is widespread. It is estimated that 45% of the country's industry is owned by non-Canadian affiliates.

Exxon Corp., for example, has a 70% ownership stake in Imperial. Texaco Inc. owns 78% of Texaco Canada—a cash-rich property (about $583-million in cash and marketable securities) that has been mentioned as a buyout possibility because of the Texaco/Pennzoil settlement.

About 80% of Shell Canada is held by a Canadian investment company which in turn is wholly owned by Shell Transport and Trading Co. in England and Royal Dutch Petroleum Co. in the Netherlands. Approximately 75% of Suncor is owned by the Sun Company, with the remaining 25% held by the Province of Ontario. Chevron Canada, which markets on the West Coast, is controlled by Chevron Corp., and in turn owns 49% of Irving Oil, Ltd., a middle-sized Eastern refiner and marketer.

Over 50% of the stock of Calgary-based Husky Oil Ltd., belongs to Hong Kong entrepreneur Li Kashing and his son, a Canadian citizen. Shortly after the Texaco/Pennzoil settlement last fall, Husky executives journeyed to New York to meet with Texaco Inc. officials, apparently with the intention of bidding on the company's Canadian affiliate with an offer reported to be $2.2-billion. Although nothing has developed since that time—in fact, Texaco says it will borrow the money to pay its Pennzoil indebtedness—it is interesting to note that the acquisition of Texaco Canada would thrust Husky into the front ranks of Canadian majors, giving it a powerful presence in Eastern markets and a bigger share of its present Western marketing area.

The only major integrated company owned by Canadians, of course, is Petro-Canada, the Calgary-based giant which is 100% owned by the federal government. Petro-Canada officials like to point out that the company is gaining acceptance among the general public (See related story), but many marketers complain that having the government in the oil business puts them at a competitive disadvantage.

One independent marketer gripes about the "billions" in tax dollars that were used to finance Petro-Canada's early expansion. "It's murder trying to compete against your own government," this marketer says.

Independent niche: full-service at self-serve prices

• As shown in the accompanying chart, major differences exist between Canada and the U.S. in terms of average pump prices, gasoline margins and taxes. For example, information provided by Statistics Canada and Energy, Mines and Resources Canada, shows the differential between average Canadian and U.S. pump prices (all grades) in September, 1987 was 15.6¢ (Canadian) per litre, which works out to about 48¢ (U.S.) per gal. The report notes that nearly two thirds of the differential was accounted for by higher taxes in Canada, which averaged by 9.6¢ per litre. Federal and provincial taxes took a huge 18.2¢ bite out of the Canadian gasoline litre, more than twice the U.S. tax rate.

An analysis of pump price components for self-serve regular leaded in Canada in late October showed dealers were realizing a retail margin of 3.7¢ per liter or more than 11¢ per gal in U.S. currency. That's self-serve, remember. Interestingly, the spread between full-service and self-serve prices in minimal in Canada, averaging only about 0.5¢ per litre. In fact, more gasoline is dispensed at full-service islands (55%) than at self-serve facilities.

One major company marketing executive explains that many independent marketers "have found a niche in the marketplace" by offer full-service gasoline at self-serve prices.

Diversification

Perhaps it's due to the country's wide open spaces and dispersed population, but whatever the reason, Canadian marketers, big and small, tend to diversify into a multitude of product offerings to satisfy the needs of their marketing territories.

Stephen O'Farrell of Texaco Canada foresees "destination" outlets offering a variety of products and services to customers as the future model for retail facilities. "Marketers can't make it on gasoline alone, anymore," he says.

O'Farrell envisages a "full family of buildings" including gasoline, convenience store, express lube, car wash and auto service as local market circumstances dictate.

Texaco Canada has imported the System 2000 station concept from its U.S. affiliate as part of a major upgrade of its retail outlets. O'Farrell reports that 100 System 2000 new or rebuilt units went onstream in 1986, another 130 were scheduled for completion in 1987 and that a total of 1,400 units would be converted to the System 2000 image, either as new facilities, rebuilds or existing outlets "provided with image packages."

Stephen O'Farrell, Texaco Canada vice president for marketing.

Aided by extensive advertising and retail promotions, Texaco is achieving increases in the range of 35% in average station throughputs with its image program, according to O'Farrell.

Canadian firms typically attempt to market with a mix of retail facilities. Montreal-based Ultramar, the largest regional refiner and one of the most profitable on a return-on-captial-employed basis (8.9% for the first six months of 1987), counts 750 locations with service bays, 90 car washes, 140 C-stores and 450 "gas bars" (gasoline-only) among its 1,382-station network.

Husky Oil is putting major emphasis on car washes in its 300-station chain in Western Canada, in addition to its 41 car/truck stops and nine travel stops, most of which feature leased "Husky House" restaurants. The company is also developing a three bay food shop/car wash combo for the future.

Mohawk Oil Co. Ltd., a 264-station employee-owned independent headquartered in Barnaby, British Columbia, is promoting its growing network of 1,200 sq.ft. Stop 'n Shop food stores and in-house bakeries. According to Gordon Winter, vice president of external affairs, the company stresses its image as a "warm, friendly place to shop," with top notch service. "Our attendants are trained to run to the car when it pulls in," he reports. Sales counters have a free customer phone with a printed message: "Forgotten anything—phone home." Traffic is promoted with bonus coupons, offering $2 in merchandise or gasoline with a 25-litre fill.

Smaller marketers are spreading their wings, too. T.G. Hammond Ltd., an independent marketer based in Stratford, Ontario, which started out in the coal business in 1948, has diversified into a variety of markets to broaden its customer base. The company offers a wide range of products—motor fuels, heating oil, lube oil, propane, chemicals—to its farm, commercial and home heating accounts in addition to the 20 retail outlets and six company-operated stations it supplies with about 5-million gal. a year of gasoline and diesel fuel. "We're branching out into aviation gas, too, which we feel has a lot of potential," reports T.G. "Chum" Hammond, the company's chairman.

For United GasRite International Corp., a 14-station Brantford, Ontario independent, the main area of diversification has been in automatic self-serve car washes. "We're also planning to install quick lube facilities on at least two of our properties," says Tom Storr, vice president.

Promotions, too, are playing a big part in marketer plans to pick up market share. United GasRite, for example, is getting its biggest boost in sales out of a promotional idea it imported from the U.S., a miniature, computerized machine resembling a slot machine installed on top of a gasoline dispenser. Developed by Little Rock, Ark., private-brander Bill Copeland [*NPN*—Apr. '87, p43], the "Jackpot" game is activated when the nozzle is turned on. Three wheels spin just like a slot machine and if they stop on certain display combinations, lights flash, a siren sounds and customers win varying cash prizes, including a chance to participate in a $5,000 jackpot drawing.

"It's a great promotion," Storr reports. "In two months, our gasoline sales were up 40%."

Big companies play games, too, in the Canadian market. Sunoco has begun rolling out a "Key to Win" point-of-sale promotion—developed by Electronic Marketing Systems, Toronto—in three selected Ontario markets.

According to Dick Hutchison, Sunoco manager of marketing services, plastic white keys with promotional literature are mailed to every household in a targeted market

area. Customers can bring the keys to a station, insert them into a 64K computer in the station's kiosk and win from $1 to $100. Customers can only use their keys on a twice-a-week basis.

The promotion lasts 16 weeks in a target market. Sunoco isn't saying yet what results it's getting in terms of gallonage increases, but Hutchison says that sales increases in test markets are very encouraging. "The customer retention factor is good, too," he says. "We're building a healthy share of repeat business with the promotion."

Bigger Apples, Smaller Barrel

Although events are taking a turn for the better for Canadian oil companies, outstanding issues still remain. The high concentration of the Canadian oil market in the hands of a small number of major integrated firms has many smaller marketers fretting, for example.

"We live at the whim of the majors," says Rick Hammond, vice president for T.G. Hammond and an outspoken critic of the market domination of the majors.

In Hammond's view, the majors size give them a stranglehold on the market, enabling them to put pressure on prices and supplies. He and other independents maintain that the majors have the power to "shrink" independent margins by driving down street prices or by bumping up wholesale prices.

Typically, small independents prefer to operate without supply contracts to keep their options open in finding the lowest buying prices. (Some, like Hammond, import product from the U.S. when the price is right). But even those with short-term supply agreements with refiners often get no price guarantees. If a major kicks in a price increase, the independent has little choice except to find a new supplier. Some independents also complain that price supports granted to major brand dealers during price wars or similar market conditions are given only selectively, as to amount and timing, to independents, if at all.

James Conrad, executive vice president, Petroleum Marketers Assn. of Canada.

"We need laws with guts, to remedy the unfair marketing practices," says Hammond. He and other independents have called for stronger competition laws, plus retail divorcement legislation that would permit refiners to own but no longer operate retail facilities.

On the other hand, executives of the major companies point out that a five year-public inquiry by the Restictive Trade Practices Commission essentially let the big firms off the hook as far as anti-competitive behaviour goes. According to Shell Canada, "the inquiry found no evidence of collusion in any sector of the industry, no cases of artificial price structuring and no victimization of independent dealers by the major companies. Although the (report) noted that a number of mergers and pricing practices had adversely affected competition, it concluded that marketing restrictions on the industry would be contrary to the public interest." NEW

Esso Petroleum (Imperial) has "rationalized" 40% of its retail outlets in 11 years. Like other major companies, it is testing new retailing concepts and electronic POS systems.

Speaking Canadian

Several years ago, Canada converted to the metric system, which is an eminently sensible measuring system, but sometimes confusing to U.S. readers. For the purpose of this article, production figures are expressed in barrels (i.e., crude production, refinery capacity, etc.), a measure that is commonly understood in both the U.S. and Canada. Most Canadians use cubic metres (m3) to express production statistics. A cubic metre equals approximately 6.3 barrels.

Retail gasoline is measured in litres, with 1 litre the equivalent of 1.0567 liquid quarts. Thus, 1 gal. of gasoline equals about 3.78 litres. In this article, retail gasoline statistics are expressed in litres.

Although the U.S. dollar has declined recently in relation to the Canadian dollar, the exchange rate for the past several years has hovered around the $.75 cents (U.S.), $1.00 (Canadian) rate. Since financial data in this article are expressed in Canadian currency, a good rule of thumb is to use the $.75 rate to convert Canadian financial data into U.S. dollar amounts.